MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

DBM5024 – BUSINESS FINANCE

(All sections/Groups)

2nd OCTOBER 2023
2.30 p.m – 4.30 p.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages with 2 sections.

2. Attempt **ALL** questions in Section A and Section B. The distribution of the marks for each question is given.

3. Please write all your answers for Section A on the OMR form provided and all answers for Section B in the Answer Booklet provided.

4. The formulae are given in the appendices.

SECTION A: MULTIPLE CHOICE QUESTIONS (30 marks)

Instruction: Shade your answers on the OMR sheet provided.

1. Janna Raj needs to be familiar with the exchange rates risk if he wants to do a business outside of Malaysia. This statement **BEST** referring to which basic areas of finance?

   A. Investment.
   B. International finance.
   C. Financial institutions.
   D. Corporate finance.

2. Lily, who is working in the finance department, needs to manage the company's day-to-day finances. Which financial management decision knowledge must she obtain to carry out her job?

   A. Capital structure.
   B. Capital budgeting.
   C. Working capital assessment.
   D. Working capital management.

3. Donson plans to start a business that has easy start-up process, and he wants to keep all the profit by himself. Which of the below business should he choose?

   A. Corporation.
   B. Partnership.
   C. Sole proprietorship.
   D. Enterprise.

4. Which type of business that involved income tax at the corporate rate and then the dividends taxed at personal rate?

   A. Corporation.
   B. Private company.
   C. Sole proprietorship.
   D. Partnership.

5. Which of the following is the role of a secondary market?

   A. Issuing new shares.
   B. Provides continuous pricing mechanism.
   C. Provides advice in terms of tax deductibles.
   D. Issuing bonds on behalf of company.

Continued...

6. Which value is needed to compute shareholder's equity?

   A. Asset & Liabilities
   B. Book value & Market value
   C. Revenue & Expenses
   D. Depreciation & Marginal tax

7. Ezatty wants to buy a new fax machine for her company. Which of the below values will be the **BEST** guidance for her decision-making?

   A. Asset value.
   B. Cash flow value.
   C. Book value.
   D. Market value.

8. In the financial statement, the non-cash items will reflect to _____.

   A. revenue charged against expenses
   B. expenses charged against revenue
   C. value of the existing share
   D. value of the selling price in primary market

9. Which one of the following statements belongs to cash flow?

   A. Recognising the company's revenue when it is fully earned.
   B. It is the most important information that can be derived from financial statements.
   C. It provides the same information as a balance sheet.
   D. Identifies the total amount of debt and who the company owes.

10. Janice Tan's company has recorded a long-term debt of RM8,100. Their current liability is RM500 and equity per share is RM25. Calculate the total liability of her company.

    A. RM500
    B. RM8,100
    C. RM8,600
    D. RM8,625

11. If Danial's firm has a total asset of RM2,800 and their fixed asset is RM880. Calculate the firm's net working capital if their short-term debt is RM50 and their long-term debt is RM150.

    A. RM1,720
    B. RM1,870
    C. RM3,680
    D. RM3,880

Continued...

12. As an accountant, Li Yen is required to calculate the current asset of the company with the below details:

Long-term debt	RM1,000
Total asset	RM5,000
Fixed asset	RM800
Net working capital	RM100
Operating cash cycle	RM600

A. RM3,500
B. RM4,100
C. RM4,200
D. RM5,000

13. Eugene Lee wants to know the amount of total tax paid on his taxable income of RM7,000. Based on the data below, calculate the total tax paid.

Taxable Income (RM)	Tax Rate (%)
0 – 3,000	18
3,001 – 6,000	10
6,001 – 9,000	10
9,001 – 12,000	5

A. RM350
B. RM700
C. RM940
D. RM1,200

14. Which one of the following forms of business offers liability protection to some of its owners but not to all its owners?

A. General partnership.
B. Corporation.
C. Limited partnership.
D. Single partnership.

15. _____ is where there is a conflict of interest between principal and agent.

A. Corporation problem
B. Management problem
C. Stockholders' problem
D. Agency problem

Continued...

16. _____ is where a cash flow occurs at the beginning of each period.

A. Annuity due
B. Annuity
C. Perpetuity
D. Future value

17. Calculate the effective rate of 12% compounded semiannually.

A. 12.36%
B. 13.36%
C. 15.55%
D. 20%

18. The date on which the principal amount of a bond is paid is called as _____.

A. par value
B. coupon rate
C. maturity date
D. yield to maturity

19. Ah Boy plans to issue a 12-year zero coupon bond that yields 15 percent and has a par value of RM1,000. Calculate the price that Ah Boy should charge for these bonds.

A. RM50.50
B. RM64.80.
C. RM124.88.
D. RM186.91.

20. Given the real rate is 10% and the inflation rate is 5.5%. Calculate the nominal rate.

A. 16.05%
B. 18.05%
C. 25.05%
D. 35.05%

21. _____ is when the Board declares the dividend and it becomes a liability of the firm?

A. Ex-dividend date
B. Declaration date
C. Date of record
D. Date of payment

Continued...

22. Alysa Bhd states a purchase price and the desired number of shares to be bought as part of their stock repurchase exercise. This method is also called as _____.

A. tender offer
B. open market
C. targeted repurchase
D. cash repurchase

23. Michelle has 35,000 shares of stock outstanding at a price of RM65 per share. How many shares will be outstanding if the company does a 4-for-2 stock split?

A. 5,000 shares.
B. 70,000 shares.
C. 17,500 shares.
D. 22,000 shares.

24. Which of the below is **NOT** the reason why a company does a reverse stock split?

A. Transactions cost may be less for investors.
B. Liquidity might be improved.
C. Too low a price may be considered not "respectable".
D. Exchange a maximum price per share requirements.

25. Which of the below is **NOT** the reason for paying a dividend?

A. Dividends may attract institutional investors.
B. Dividends absorb excess cash and may reduce agency costs.
C. Stock prices usually increase with a new or increased dividend.
D. Dividends can reduce internal sources of funding.

26. The reason Nigel is holding cash is because he wants to take advantage of unexpected opportunities. This is also called as _____.

A. Speculative motive.
B. Precautionary motive.
C. Transaction motive.
D. Safety motive.

27. _____ is the difference between cash balance recorded in the cash account and the cash balance recorded at the bank.

A. Bank collection
B. Depository flow
C. Check 21
D. Float

Continued...

28. Wei Yi who works in a bank notice there is an activity of _____. Where there some checks that are written for no economic reason and issuing checks with insufficient fund in the bank.

A. check 21
B. "kitting"
C. electronic data interchange
D. spamming

29. _____ is one of the 5 Cs of credit, it states that the individual willingness to meet financial obligations.

A. Capacity
B. Character
C. Capital
D. Conditions

30. Jing Ru Pet Shop purchased RM5,000 worth of goods on 5th August 2023. The terms of sales were 3/6, net 30. What is the discounted price if say she pay on 7th August 2023?

A. RM4,700
B. RM4,780.
C. RM4,850.
D. RM5,000.

(Total: 30 marks)

Continued...

SECTION B: STRUCTURED QUESTIONS (70 marks)

Instruction: Write all your answers in the answer booklet provided.

QUESTION 1

Alyssa is borrowing RM15,000 for 3 years with an APR of 5 percent. She makes a single fixed payment every year with the interest being paid in full each year. Prepare the amortization table schedule. (11 marks)

(TOTAL 11 MARKS)

QUESTION 2

Bryan Lee Holdings is currently issuing Bond AA which is a 2-year and Bond BB which is an 8-year bond. Both bonds pay the same amount of annual interest, which is an 8% coupon rate annually and have a face value of RM1,000. Assume that the yield of maturity on each bond is 9% one year from now.

a. Calculate the bond price for both bonds. (8 marks)

b. Which bond will you choose? Why? (2 marks)

c. Are both bonds selling at par, premium or discount? Why? (1 mark)

d. What is the current yield for both bonds? (4 marks)

(TOTAL 15 MARKS)

QUESTION 3

a. Josephine's company has achieved a very good financial year in 2023. Her company have announced to increase their dividend by 30% in year 1, 25% in year 2 and 20% in year Thereafter, the dividends will increase by 15%. The company has paid the dividend of RM1.10 per share last year. The required rate of return for this stock is 30%. What is the current value of the stock? (12.5 marks)

b. Given D_0 equals to RM5.00 and a constant growth of 5%. What will be the dividend value at year 2? (2.5 marks)

(TOTAL 15 MARKS)

Continued...

QUESTION 4

a. Cupid Sdn Bhd is planning to take on a project with an initial investment of RM25,000. The required rate of return is 15%. The company is expected to receive a cash flow from the project as per below. Calculate the net present value.
(8.5 marks)

Year	1	2	3	4	5
Net income	RM12,000	RM10,000	RM25,000	RM10,000	RM5,500

b. Suzanne's company is planning to invest in a new project for her company's future growth. The initial cost of the project is RM15,000. The project will produce the following cash inflows:

Year	1	2	3	4
Net Income	RM30,000	RM45,000	RM25,500	RM44,400

i. Calculate the payback period. (7 marks)

ii. If the estimated payback period is 3 years, should the company accept the project? (1 mark)

(TOTAL 16.5 MARKS)

QUESTION 5

a. The Good Company writes 300 checks a day for an average amount of RM1,000 each. These checks generally clear the bank in 3 days. In addition, the company generally receives an average of RM200,000 a day in checks which it deposits immediately. Deposited funds are made available in 3 days. What is the company's net float? (6.5 marks)

b. A company's inventory item has a carrying cost of RM2.50 per unit. The fixed cost is RM45 per order and the company sells 50,000 units per year. Calculate what is the economic order quantity of the company. (3 marks)

c. List the **THREE (3)** inventory management that classify inventory by cost, demand, and need. (3 marks)

(Total: 12.5 marks)

End of Page.

Appendices

I. Symbols

PV = Present value, what future cash flows are worth today
FV_t = Future value, what cash flows are worth in the future
r = Interest rate, rate of return, or discount rate per period typically , but not always, one year
t = Number of periods typically , but not always, the number of years
C = Cash amount

II. Future value of C invested at r percent per period for t periods

$FV_t = C \times (1 + r)^t$

The term $(1 + r)^t$ is called the *future value factor.*

III. Present value of C to be received in t periods at r percent per period

$PV = C/(1 + r)^t$

The term $1/(1 + r)^t$ is called the *present value factor.*

IV. The basic present value equation giving the relationship between present and future value is

$PV = FV_t/(1 + r)^t$

I. Symbols

PV = Present value, what future cash flows are worth today
FV_t = Future value, what cash flows are worth in the future at time t
r = Interest rate, rate of return, or discount rate per period—typically, but not always, one year
t = Number of periods—typically, but not always, the number of years
C = Cash amount

II. Future value of C invested per period for t periods at r percent per period

$FV_t = C \times [(1 + r)^t - 1]/r$

A series of identical cash flows paid for a set number of periods is called an annuity, and the term $[(1 + r)^t - 1]/r$ is called the *annuity future value factor.*

III. Present value of C per period for t periods at r percent per period

$PV = C \times \{1 - [1/(1 + r)^t]\}/r$

The term $\{1 - [1/(1 + r)^t]\}/r$ is called the *annuity present value factor.*

IV. Present value of a perpetuity of C per period

$PV = C/r$

A perpetuity has the same cash flow every period forever.

I. Finding the value of a bond

Bond value $= C \times [1 - 1/(1 + r)^t]/r + F/(1 + r)^t$

where

C = Coupon paid each period

r = Rate per period

t = Number of periods

F = Bond's face value

II. Finding the yield on a bond

Given a bond value, coupon, time to maturity, and face value, it is possible to find the implicit discount rate, or yield to maturity, by trial and error only. To do this, try different discount rates in the formula above until the calculated bond value equals the given bond value. Remember that increasing the rate *decreases* the bond value.

I. The general case

In general, the price today of a share of stock, P_0, is the present value of all of its future dividends, $D_1, D_2, D_3, \ldots$:

$$P_0 = \frac{D_1}{(1 + R)^1} + \frac{D_2}{(1 + R)^2} + \frac{D_3}{(1 + R)^3} + \cdots$$

where R is the required return.

II. Constant growth case

If the dividend is constant and equal to D, then the price can be written as:

$$P_0 = \frac{D}{R}$$

If the dividend grows at a steady rate, g, then the price can be written as:

$$P_0 = \frac{D_1}{R - g}$$

This result is called the *dividend growth model.*

III. Nonconstant Growth

If the dividend grows steadily after t periods, then the price can be written as:

$$P_0 = \frac{D_1}{(1 + R)^1} + \frac{D_2}{(1 + R)^2} + \cdots + \frac{D_t}{(1 + R)^t} + \frac{P_t}{(1 + R)^t}$$

where

$$P_t = \frac{D_t \times (1 + g)}{(R - g)}$$

IV. Valuation Using Multiples

For stocks that don't pay dividends (or have erratic dividend growth rates), we can value them using the PE ratio and/or the price-sales ratio:

P_t = Benchmark PE ratio × EPS_t

P_t = Benchmark price-sales ratio × Sales per $share_t$

V. The required return, R, can be written as the sum of two things:

$$R = D_1/P_0 + g$$

where D_1/P_0 is the *dividend yield* and g is the *capital gains yield* (which is the same thing as the growth rate in dividends for the steady growth case).

I. **The cost of equity, R_E**
   A. Dividend growth model approach (from Chapter 7):

   $$R_E = D_1/P_0 + g$$

   where D_1 is the expected dividend in one period, g is the dividend growth rate, and P_0 is the current stock price.
   B. SML approach (from Chapter 11):

   $$R_E = R_f + \beta_E \times (R_M - R_f)$$

   where R_f is the risk-free rate, R_M is the expected return on the overall market, and β_E is the systematic risk of the equity.

II. **The cost of debt, R_D**
   A. For a firm with publicly held debt, the cost of debt can be measured as the yield to maturity on the outstanding debt. The coupon rate is irrelevant. Yield to maturity is covered in Chapter 6.
   B. If the firm has no publicly traded debt, then the cost of debt can be measured as the yield to maturity on similarly rated bonds (bond ratings are discussed in Chapter 6).

III. **The weighted average cost of capital, WACC**
   A. The firm s WACC is the overall required return on the firm as a whole. It is the appropriate discount rate to use for cash flows similar in risk to the overall firm.
   B. The WACC is calculated as:

   $$\text{WACC} = (E/V) \times R_E + (D/V) \times R_D \times (1 - T_C)$$

   where T_C is the corporate tax rate, E is the *market* value of the firm s equity, D is the *market* value of the firm s debt, and $V = E + D$. Note that E/V is the percentage of the firm s financing (in market value terms) that is equity, and D/V is the percentage that is debt.